

Message Text

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ACTION EB-08

INFO OCT-01 ARA-11 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 DOEE-00 SSO-00 XMB-02 OPIC-03 /130 W
-----113308 131515Z /42

P 131416Z SEP 78

FM USMISSION GENEVA

TO SECSTATE WASHDC PRIORITY 4002

INFO AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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PASS STR ELECTRONICALLY

E.O. 11652: N/AMKTGS: ETRD, GATT, BR

SUBJECT: BRAZIL ARTICLE XXVIII NEGOTIATIONS

REF: (A) GENEVA 11177, (B) STATE 214772

1. SUMMARY: BRAZIL WILL REESTABLISH PARTIAL BINDING ON ONE AIRCRAFT ITEM AND NOW BELIEVES THAT BRAZILIAN COMPENSATORY OFFERS ALREADY ACCEPTED BY U.S. GIVE ADEQUATE COMPENSATION FOR TARIFF BINDINGS WITHDRAWN BY BRAZIL. END SUMMARY.

2. WE MET SEPTEMBER 12 WITH BRAZILIAN DEL (BOTAFOGO, ET AL.) TO CONTINUE ARTICLE XXVIII NEGOTIATIONS. BOTAFOGO SAID THAT AUGUST REVIEW SESSION IN BRAZIL AND CHANGED ATMOSPHERE IN AIRCRAFT SECTOR HAD CONVINCED AIR MINISTRY THAT BINDING ON BTN ITEM 88.02.03.00 SHOULD BE PARTIALLY REESTABLISHED AT PREVIOUS GATT BOUND LEVEL OF LIMITED OFFICIAL USE

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2 PERCENT. BRAZIL TARIFF ITEM 88.02.03.00 (TURBO JET AIRPLANES) IS DUTIABLE AT 7 PERCENT, AN UNBOUND RATE. WITHIN THIS BTN ITEM GOB HAS ESTABLISHED AN EX ITEM FOR TURBO JETS UP TO 7,000 KILOS DUTIABLE AT 50 PERCENT IN ORDER TO PROTECT BRAZILIAN PRODUCTION. BOTAFOGO SAYS THAT BRAZIL WILL REESTABLISH PREVIOUS GATT BINDING OF 2 PERCENT ON TURBO JET AIRPLANES GREATER THAN 20,000 KILOS,

THIS BEING THE CATEGORY CONTAINING MOST OF THE IMPORTS FROM THE U.S. PLANES BETWEEN 7 AND 20 MT WILL PAY A DUTY OF 7 PERCENT BUT DUTY WILL REMAIN UNBOUND. BOTAFOGO EXPLAINED AT LENGTH HOW ATMOSPHERE HAD CHANGED FAVORABLY AS RESULT OF FAA CERTIFICATION OF BRAZILIAN AIRCRAFT AND SAID THAT AIR MINISTRY IS NOW WILLING TO REESTABLISH, AT LEAST PARTIALLY, BOUND RATE ON JET AIRCRAFT.

3. ACCORDING TO BRAZILIAN TRADE STATISTICS TOTAL IMPORTS IN THE ITEM AVERAGED \$84.4 MILLION DURING THE PERIOD 1972-74. BOTAFOGO POINTED OUT, HOWEVER, THAT IT WAS NOT POSSIBLE FOR THE BRAZILIAN AUTHORITIES TO DISAGGREGATE THIS TRADE DATA. IN AN ATTEMPT TO DO SO, GOB SOUGHT ASSISTANCE FROM AIRCRAFT INDUSTRY BUT IMPORT FIGURES SUPPLIED BY AIRCRAFT INDUSTRY WERE SUBSTANTIALLY LARGER THAN \$84.4 MILLION. THESE FIGURES ARE BASED ON REGISTRATION DATA FOR AIRCRAFT AND GOB IS ATTEMPTING TO EXPLAIN DISCREPANCY. IMPORTS FROM U.S. FOR 3 YEARS (1972-74) IN (\$000) WERE AS FOLLOWS:

-		GREATER THAN	LESS THAN
YEAR	TOTAL	20 TONS	20 TONS
1972	\$ 45,181	\$ 45,181	\$ -
1973	56,363	45,262	11,101

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1974	231,823	217,164	14,659
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THREE-YEAR AVERAGE FOR TOTAL IMPORTS IS \$111.1 MILLION, WITH \$102.5 MILLION OF THIS ACCOUNTED FOR BY AIRCRAFT OF MORE THAN 20 MT.

4. BOTAFOGO SAID THAT THERE ARE SEVERAL POSSIBLE EXPLANATIONS FOR DISCREPANCY IN TRADE FIGURES INCLUDING LAG IN ISSUANCE OF IMPORT PERMITS AND ACTUAL IMPORTS AS WELL AS PRACTICE OF BRAZILIAN AIRLINES OF LEASING EQUIPMENT BEFORE PURCHASE, AIRCRAFT WHICH ARE COUNTED AS TEMPORARY IMPORTS BUT WHICH ARE COUNTED IN AIRCRAFT INDUSTRY FIGURES WHEN THE AIRCRAFT IS REGISTERED. BOTAFOGO SUGGESTED, IN ORDER TO RECALCULATE THE LEVEL OF TRADE COVERAGE OF THE ITEMS WITHDRAWN BY BRAZIL, THAT WE COULD REPLACE THE \$84.4 MILLION DAMAGE FIGURE WITH THE AVERAGE FOR 1972-74 OF \$111.1 MILLION. THIS THEN WOULD NEED TO BE REDUCED BY THE \$102.5 MILLION IN THE ITEM THAT HAS BEEN REBOUND AT 2 PERCENT. ALTERNATIVELY THE RATIO OF LARGE JETS TO TOTAL JET IMPORTS CALCULATED BY THE AIRCRAFT INDUSTRY COULD BE APPLIED TO THE \$84.4 MILLION AND THE AMOUNT OF WITHDRAWALS REDUCED ACCORDINGLY. IN EITHER

CASE THE LEVEL OF WITHDRAWALS WOULD BE REDUCED FROM
\$210-220 MILLION TO APPROXIMATELY \$130-140 MILLION.
BOTAFOGO STRESSED THAT GOB VIEWS THE REESTABLISHMENT OF
THIS TARIFF BINDING AS A SIGNIFICANT EFFORT TO ACCOMMODATE
U.S. INTERESTS SINCE IT REPRESENTS A LARGE U.S. TRADE
ITEM AND SINCE WE HAVE REPEATEDLY EMPHASIZED THE IMPOR-
TANCE WE ATTACH TO THE TARIFFS IN THE AIRCRAFT SECTOR.
BRAZIL DEL'S CALCULATION OF TRADE COVERAGE OF OFFERS
ALREADY ACCEPTED BY THE U.S. IS \$108 MILLION AND CON-
FLICTS WITH U.S. CALCULATION OF \$94.3 MILLION IN REF B.
THIS FIGURE DOES NOT INCLUDE APPLES AND PEARS. ALTHOUGH
TRADE IN APPLES AND PEARS WAS SMALL IN 1972-74, LARGELY

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BECAUSE OF GOB RESTRICTIONS, BOTAFOGO EMPHASIZED THE
TRADE AND POLITICAL IMPORTANCE OF THIS "DIFFICULT" CON-
CESSION. IN VIEW OF BRAZIL'S REESTABLISHMENT OF AIR-
CRAFT TARIFF, GOB NOW BELIEVES THAT IT HAS ALREADY
OFFERED MORE THAN ADEQUATE COMPENSATION FOR WITHDRAWALS
TAKING INTO CONSIDERATION THE CONCEPT OF NON-RECIPROCITY
INCLUDED IN THE BRAZILIAN WAIVER. BRAZIL DEL'S CALCULA-
TION OF TRADE COVERAGE IS SHOWN IN ANNEX. A QUICK
CHECK INDICATES THAT MAJOR DISCREPANCY BETWEEN GOB AND
U.S. FIGURES MAY BE ITEM BTN 90.10.18.00 IN WHICH BRAZIL
DATA SHOWS IMPORTS OF \$21.5 MILLION FOR 1972-74 PERIOD.

5. WE QUERIED BRAZIL DEL ON UNDERSTANDING ON LICENSING AND SURCHARGES, AND BOTAFOGO INDICATED THAT HE HAS SUBMITTED DRAFT NOTE TO INTERAGENCY PROCESS THAT HE THOUGHT WOULD MEET OUR CONCERNS. DRAFT EVIDENTLY CONFIRMS THAT LICENSES WILL BE ISSUED AUTOMATICALLY. WITH RESPECT TO LIMITED OFFICIAL USE

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SURCHARGES, BOTAFOGO WAS UNWILLING TO INDICATE NATURE OF DRAFT BUT SAID HE HOPED TO BE ABLE TO HAVE FINAL CLEARANCE ON DRAFT BY EARLY NEXT WEEK, AND WOULD DISCUSS IT AT THAT TIME.

6. ANNEX:

- BRAZILIAN IMPORTS FROM THE U.S.A.
- (US\$1,000 FOB)

TARIFF ITEM	AVERAGE 1972/74	AVERAGE 1975/77
29.09.04.00 *	3.489	7.060
32.09.02.05	113	14
38.14.01.00	12.723	24.742
38.14.02.01	10.995	12.249
39.01.02.09	41	519
40.02.99.04	4.359	6.843
84.05.02.00	1.717	15.299
84.22.09.00	16.855	18.711
84.23.02.10	4.578	3.172
84.35.05.00	3.319	5.386
84.56.99.00	2.136	5.900
84.60.02.01	646	1.886
85.15.07.00	368	589
85.19.02.99	4.859	7.667
85.19.03.01	2.590	4.621
85.19.05.99	1.636	1.939
87.02.03.05	8.797	17.905
90.10.18.00	21.490	8.568
90.19.99.00	710	821
90.28.99.00	6.631	9.807
TOTAL	108.053	153.698

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7. COMMENT: WHETHER REESTABLISHMENT OF GARGE JET AIR-

CRAFT TARIFF REPRESENTS GENUINE GOB POLITICAL EFFORT TO MEET U.S. CONCERNS AS PORTRAYED BY BOTAFOGO OR WHETHER IT INDICATES THAT GOB OFFICIALS FINALLY REALIZED THEY COULD SUBSTANTIALLY REDUCE LEVEL OF WITHDRAWALS (AND HENCE NEEDED COMPENSATIONS BY REESTABLISHING REFLATIVELY COSTLESS TARIFF, WE CANNOT DETERMINE. WHAT IS BECOMING EVIDENT, HOWEVER, IS THAT GOB IS NOT WILLING TO MAKE ADDITIONAL OFFERS AND BELIEVES THAT IT HAS NOW OFFERED ADEQUATE COMPENSATION. ALTHOUGH WE DISCOUNT IT AS POSTURIZING, BOTAFOGO AT ONE POINT INDICATED THAT GOB IS EVEN CONSIDERING WITHDRAWING SOME OF ITS PREVIOUS OFFERS ACCEPTED BY U.S. ALTHOUGH WE MAY BE ABLE TO INCREASE COMPENSATION PACKAGE SLIGHTLY BY ADDITION OF PREVIOUS GOB OFFERS NOT YET ACCEPTED BY U.S. CONTAINED IN ANNEX I OF JULY 13 TPSC PAPER (OFFERS WHICH BOTAFOGO SAYS HAVE BEEN WITHDRAWN) WE BELIEVE GOB WILL NOT REPEAT NOT SIGNIFICANTLY INCREASE OFFER. END COMMENT.
VANDEN HEUVEL

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